Twenty-fifth Annual Report 1975

for the year ended
September 30, 1975

and

Semi-Annual Report

for the six month period
ended March 31, 1976

GIANT MASCOT MINES LIMITED

GIANT MASCOT MINES LIMITED

(Incorporated under the Laws of the Province of British Columbia)

TWENTY-FIFTH ANNUAL REPORT

DIRECTORS

K.G. Bream, *Toronto*
R.B. Carleton, *Montreal*
F.P. Cundill, *Vancouver*
N. Gesser, *Montreal*
J.L. Gibson, *Vancouver*
L.P. Starck, *Vancouver*

OFFICERS

R. B. Carleton, *Chairman of the Board*
L. P. Starck, *President and Managing Director*
N. Gesser, *Vice-President Finance*
A. H. Ainsworth, *Secretary and General Counsel*

REGISTERED AND RECORDS OFFICE
Suite 2260, Toronto-Dominion Bank Tower,
Pacific Centre, 700 West Georgia Street, Vancouver V7Y 1A9

ADMINISTRATIVE OFFICE
Suite 900 - 837 West Hastings Street,
Vancouver, B.C. V6C 1C2

REGISTRAR AND TRANSFER AGENTS
Canada Permanent Trust Company,
Calgary, Montreal, Toronto, Vancouver

SOLICITORS
Ainsworth & Company, Vancouver

AUDITORS
Price Waterhouse & Co., Vancouver

Listed on the Toronto and Vancouver Stock Exchanges

REPORT OF THE PRESIDENT ON BEHALF OF THE DIRECTORS TO THE MEMBERS

This report accompanies the audited consolidated financial statements of the Company for its last fiscal year ended September 30, 1975, and for the further semi-annual period ended March 31, 1976, and deals with those periods and certain subsequent developments.

During the first half of the 1975 fiscal year, the Company paid the balance of its commitment to Panarctic Oils Ltd. under the Fifth Expansion Agreement. In April, 1975, Panarctic made a further offering of its common shares to its shareholders under the Sixth Expansion Agreement in which the Company did not elect to participate. In the result, however, the Company's equity interest in Panarctic was only reduced from 4.436% to 4.2626%. In January, 1976, Panarctic again made an offer to its shareholders to raise a total of $25,000,000 by way of the sale of units of its securities under the Seventh Expansion Agreement at a price of $12.50 per unit payable, as and when called for by Panarctic from time to time. Each such unit consisted of one share of Panarctic and a warrant to purchase two additional shares at the price of $1.00 per share, exercisable during the five years commencing on the later of either January 1, 1981, or the first day of January in the year next following the initial delivery of petroleum substances from Panarctic lands, but, in any event, not later than January 1, 1991. The Company elected to participate in the Seventh Expansion Agreement to the extent of its 4.2626% interest at the time of the offering, and in consideration for its commitment in the amount of $1,065,650 has received 85,252 shares of Panarctic and a warrant to purchase up to a further 170,504 shares at the price of $1.00 per share. in the result, the Company now owns a total of 1,743,424 shares of Panarctic, which represents 4.2626% of the total number of shares of Panarctic issued and outstanding after giving effect to the Seventh Expansion Agreement, and has the right to maintain such interest in the shares reserved for the warrants, if and to the extent that the Company exercises such right.

The continuing exploration program by Panarctic has extended the areas of the Drake Point and Hecla gas fields, established in the Hecla field a new pool of gas in the Bjorne sand, and discovered the new Jackson Bay gas field midway between the King Christian and Kristoffer Bay gas fields. The President of Panarctic recently stated that new finds bring the gas reserves in the Arctic Islands to about fifteen trillion cubic feet.

With the drilling of two successful gas wells in the Drake Point gas field in early 1975, there are now a total of seven successful gas wells in that field, the extent of which has been established to be over 25 miles in length. This field, which is considered to be the largest gas field in Canada, is reported by Panarctic to have gas reserves of almost six trillion cubic feet.

The Hecla gas field in the Borden Island sand, which has a maximum width of 13 miles, has been extended to some 25 miles in length by recent drilling offshore the Sabine Peninsula on Melville Island. Furthermore, the latest well, M-25, encountered a much thicker pay section than that found in other Hecla wells in the Borden Island sand and the P-62 well drilled in January, 1976, not only confirmed gas pay in the Bordon Island sand but also discovered a new pool of gas in the deeper Bjorne sand.

The Jackson Bay discovery, which is considered to be the eighth gas field found to date in the Canadian Arctic Islands, was made in April of this year by the G-16A well that encountered gas, with the indication of a high productivity, in the King Christian sand. This discovery well, located four miles offshore of Ellef Ringnes Island, intersected 583 feet of gas pay which is the thickest pay zone yet encountered by Panarctic. Of the eight gas fields discovered to date in the Canadian Arctic Islands, Panarctic holds varying interests in seven of them.

Following the favourable indications of commercial oil prospects obtained in testing the F-72A well on Cameron Island, which was the third well drilled on the Bent Horn reef structure, a fourth well was drilled as a stepout six miles away, but was abandoned in April, 1976, after encountering crude oil in non-commercial quantities. Another test well, however, is to be drilled on Cameron Island about a mile from the Bent Horn discovery well.

During the year ended September 30, 1975, the Company, as previously reported, completed a rights offering to its shareholders at $0.58 per share from which it received, on the exercise of rights, the sum of $2,227,200 for 3,839,999 shares, and, pursuant to the guarantee by Cemp Investments Ltd., further subscriptions in the aggregate sum of $1,302,450 for the remaining 2,245,605 shares offered, but not taken up by the exercise of rights. From the proceeds the Company retired all its outstanding bank indebtedness and paid the balance of its commitments to Panarctic Oils Ltd. under the Fifth Expansion Agreement.

Since the closure of the Giant Nickel Mine in August, 1974, the Company has had no operating income from mineral production but has supplemented its cash resources by disposing of residential properties, inventory and certain machinery and equipment. The proceeds of such sales by the Company and one of its wholly-owned subsidiaries amounted to $445,841 in the fiscal year ended September 30, 1975, and $178,621 in the six months ended March 31, 1976. The Company plans to dispose of certain physical assets including one, or both plants, to generate the funds required for its corporate purposes and commitments.

Neither the Company, nor any of its subsidiaries has entered into any commitments for capital expenditures or has made any material acquisitions since October 1, 1974, other than for the participation in Panarctic's Seventh Expansion Agreement. During the fiscal year ended September, 1975, the total wages, salaries and benefits paid by the Company and its subsidiaries amounted to $212,700 as compared with $2,111,181 for the previous year. As at September 30, 1975, the Company and its subsidiaries had a total of ten employees. During the semi-annual period ended March 31, 1976, the total wages, salaries and benefits paid by the Company and its subsidiaries amounted to $97,580.

Onerous tax and other legislation, as well as depressed metal prices and markets and ever increasing costs, provided little, if any encouragement for the resumption of exploration, in the near terms, on the Company's mining properties, all of which are situate in British Columbia. However, the Company has investigated and evaluated a number of proposals in the natural resource and industrial fields in Canada and elsewhere, and is continuing to do so, with particular emphasis on ventures in mineral or hydrocarbon production or associated operations from which earnings could be derived with a comparatively short time.

On Behalf of the Board of Directors

President and Managing Director

April 23, 1976

AUDITORS' REPORT

To the Shareholders of
Giant Mascot Mines Limited:

We have examined the consolidated balance sheet of Giant Mascot Mines Limited and its subsidiaries as at September 30, 1975 and the consolidated statements of loss, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The ultimate realization of the Companies' investment in mineral claims, buildings and equipment, deferred mine development costs and deferred exploration and development expenditures is dependent on the results of future exploration and development work and the generation of sufficient funds for such programmes.

In our opinion, subject to the outcome of the Companies' exploration and development efforts and the generation of sufficient funds for such programmes, these consolidated financial statements present fairly the financial position of the Companies as at September 30, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. In accordance with Section 212 of the British Columbia Companies Act we report that, in our opinion, due provision has been made for minority interests.

Vancouver, B.C.
November 20, 1975

Price Waterhouse & Co.

Chartered Accountants

CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 1975

ASSETS	1975	1974
Current assets:		
Cash and certificates of deposit	$ 415,908	$ 110,460
Receivables -		
Concentrate settlements	—	567,859
Other	83,596	71,408
Concentrate inventories, at estimated net realizable value	—	386,481
Supplies, at estimated realizable value	47,786	93,000
Prepaid expenses	93,743	173,631
	641,033	1,402,839
Investment in and advances to affiliated company, Giant Explorations Limited (N.P.L.)(Note 1):		
Investment	122,498	127,370
Advances	74,888	51,716
	197,386	179,086
Mining properties and petroleum and natural gas holdings (Notes 2 and 3)	5,946,999	6,316,092
Interest in Panarctic Oils Ltd. (Note 4)	14,181,512	14,177,673
	$20,966,930	$22,075,690

LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974
Current liabilities:		
Bank loans	$ —	$ 3,050,000
Accounts payable	39,200	123,001
Accrued liabilities	83,978	167,746
Liability relating to the acquisition of shares of Panarctic Oils Ltd.	—	795,145
	123,178	4,135,892
Minority interest in subsidiary	85,666	85,666
Shareholders' equity:		
Share capital -		
Authorized -		
15,000,000 common shares of no par value		
Issued -		
14,779,332 common shares (Note 10)	19,803,498	16,273,848
Contributed surplus	237,494	237,494
Retained earnings	717,094	1,342,790
	20,758,086	17,854,132
Commitment and contingent liabilities (Notes 5 and 7)		
	$20,966,930	$22,075,690

THESE CONSOLIDATED FINANCIAL STATEMENTS
HAVE BEEN APPROVED BY THE BOARD OF DIRECTORS:

Director

Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED SEPTEMBER 30, 1975

	1975	1974
Retained earnings, beginning of year	$1,342,790	$6,039,520
Loss for the year	625,696	4,696,730
Retained earnings, end of year	$ 717,094	$1,342,790

CONSOLIDATED STATEMENT OF LOSS (Note 2)
YEAR ENDED SEPTEMBER 30, 1975

	1975	1974
Value of mineral production	$ –	$3,108,448
Cost of production:		
Mining, concentrating and administration	–	2,180,090
Mine exploration and development	–	268,355
Depreciation	–	529,133
Amortization	–	305,688
Depletion	–	11,778
	–	3,295,044
	–	(186,596)
General and administrative expenses (Note 6)	184,802	247,644
Other general expenses:		
Mine shutdown expenses	150,394	–
Mineral land tax	49,548	–
Interest expense	129,974	319,417
Financing expense	39,117	37,983
Investigation of exploration prospects	66,771	39,853
Depletion	1,000	–
	621,606	644,897
	(621,606)	(831,493)
Other income and (expenses):		
Maintenance costs - Motherlode-Greyhound Property	(67,207)	(74,789)
Interest income	21,173	1,797
Miscellaneous	46,816	10,886
Gain (loss) on disposal of assets	–	(55,536)
	782	(117,642)
Loss before income and mining taxes recoverable, equity in expired costs of affiliate and extraordinary item	620,824	949,135
Deferred income and mining taxes recoverable	–	413,500
Loss before equity in expired costs of affiliate and extraordinary item	620,824	535,635
Equity in expired costs of affiliate (Note 1)	4,872	55,934
Loss before extraordinary item	625,696	591,569
Extraordinary item:		
Write down of mining assets, net of deferred tax of $2,741,000	–	4,105,161
Loss for the year	$ 625,696	$4,696,730
Loss per common share (Note 8)		

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED SEPTEMBER 30, 1975

	1975	1974
Financial resources were provided by:		
Issue of share capital	$3,529,650	$ –
Proceeds from disposals of fixed assets	400,627	77,295
Minority interest in subsidiary	–	13,046
Other	9,006	–
	3,939,283	90,341
Financial resources were used for:		
Loss for the year	625,696	4,696,730
Less: Income credits (charges) not affecting working capital in the year-		
Write down of mining assets	–	(6,752,724)
Depreciation, depletion and amortization	(1,000)	(846,599)
Deferred income and mining taxes recoverable	–	3,154,500
Loss on disposal of fixed assets	–	(55,536)
Equity in expired costs of affiliate	(4,872)	(55,934)
	619,824	140,437
Interest in Panarctic Oils Ltd.	3,839	929,458
Additions to mineral claims, buildings and equipment	–	209,738
Deferred exploration, development and other expenditures	41,540	620,103
Increase in advances to affiliate	23,172	33,777
Capitalized lease obligations	–	14,562
	688,375	1,948,075
Increase (decrease) in working capital	3,250,908	(1,857,734)
Working capital deficiency, beginning of year	2,733,053	875,319
Working capital (deficiency), end of year	$ 517,855	$(2,733,053)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 1975

1. **Accounting policies:**

The following significant accounting policies used by the Company are set forth to facilitate an understanding of the accompanying consolidated financial statements.

a) **Principles of consolidation:**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, namely: G.M. Explorations Limited (N.P.L.), Mascot Copper Mines Limited (N.P.L.), Mascot Mines & Petroleums Limited and Mascot Nickel Plate Mines Limited (in which the Company owns a 76% interest).

b) **Accounting for investment in affiliate — Giant Explorations Limited (N.P.L.):**

The Company carries its 28% investment in this affiliate by the equity method of accounting. The Company's share in the affiliate's expired costs for the year ended September 30, 1975 has been determined on the basis of unaudited financial statements of that company as at September 30, 1975.

The Company recorded as contributed surplus its equity in the increased share capital of this affiliate derived from capital stock issuances to underwriters at prevailing prices. The difference as of September 30, 1975 between the carrying amount of the investment accounted for under the equity method and the underlying equity in net assets, in the amount of $29,918, has been allocated to mineral claims and exploration and development expenditures thereon.

c) **Capitalization of exploration and development expenditures:**

Expenditures are capitalized on properties which are held for development and are not operating, and accordingly no depreciation or amortization is being provided. When a property is abondoned or an option dropped, the related costs are written off against income in that year.

2. **Shutdown of Giant Nickel Mine and write down of mining and milling assets:**

On August 30, 1974 the Giant Nickel Mine at Hope, B.C. was shut down because of a lack of proven ore reserves of sufficient grade to continue a profitable operation.

Before the Company can assess the potential of the Giant Nickel Property for future production it would be necessary to carry out an extensive exploration programme. It is presently estimated that such a programme would cost in the order of $1,500,000 and would take approximately three years to carry out once commenced.

3. **Mining properties and petroleum and natural gas holdings:**

	September 30 1975	1974
Mining properties:		
Giant Nickel Mine (Note 2)—		
Mineral claims at cost less accumulated depletion of $Nil (1974 — $57,996)	$ 239,490	$ 236,444
Buildings and equipment, at estimated realizable value	1,345,698	1,515,204
Deferred mine development and exploration costs less accumulated amortization and extraordinary write down of $Nil (1974 — $2,282,537)	779,738	762,339
	2,364,926	2,513,987
Giant Copper property—		
Mineral claims, buildings and equipment, at cost (Including $1,084,997 ascribed to 1,084,997 shares issued therefore)	1,077,298	1,077,298
Deferred exploration and development expenditures	1,089,584	1,086,997
	2,166,882	2,164,295
Motherlode-Greyhound Property—		
Mineral claims, at cost	214,103	217,429
Buildings and equipment, at cost	213,929	445,050
Deferred exploration and development expenditures	301,061	295,624
	729,093	958,103
Mascot Nickel Plate property—		
Mineral claims, at cost	79,794	90,172
Deferred exploration and development expenditures	293,881	277,042
	373,675	367,214
Carried forward	$5,634,576	$6,003,599

3. **Mining properties and petroleum and natural gas holdings continued:**

	September 30 1975	1974
Mining properties continued:		
Brought forward	$5,634,576	$6,003,599
Nickel Syndicate property (50% interest)—		
Mineral claims, at cost	25,099	23,447
Deferred exploration and development expenditures	202,168	204,006
	227,267	227,453
Giant Soo property—		
Mineral claims, at cost	21,202	21,202
Deferred exploration and development expenditures	54,954	53,838
	76,156	75,040
Interest in petroleum and natural gas holdings:		
Pembina Cardium Unit No. 8, at cost less accumulated depletion of $2,200	9,000	10,000
	$5,946,999	$6,316,092

The total amount shown for mining properties and petroleum and natural gas holdings is not intended to represent present or future value.

4. **Interest in Panarctic Oils Ltd.:**

The Company holds a 4.2626% interest (1,658,172 shares) in Panarctic Oils Ltd. (a company organized by private industry and the Government of Canada), the cost of which interest amounted to $14,181,512 at September 30, 1975. During the year ended September 30, 1975, the Company did not subscribe for additional shares of Panarctic offered pursuant to the Sixth Expansion Agreement. Panarctic, at present, is still in the exploratory stage, and, accordingly, as its most recent published financial statements indicate, all its costs and expenses have been capitalized and it is deemed to have earned no profit and sustained no loss to December 31, 1974. The shares of Panarctic are closely held and their transfer is subject to restrictions.

Subsequent to September 30, 1975, the Company, pursuant to Panarctic's Seventh Expansion Agreement, has agreed to subscribe for a further 85,252 shares of Panarctic, being the Company's pro rata portion of the shares initially offered, at a price of $12.50 per share at a total cost of $1,065,650, which it is presently anticipated will be payable in quarterly instalments commencing in February, 1976. The Company's subscription for such additional shares will entitle it to receive warrants to purchase an additional 170,504 shares of Panarctic at a price of $1 per share which may be paid by the incurring of exploration expenditures. Such warrants are exercisable during the five years commencing either on January 1, 1981 or the first day of January in the year next following the initial delivery of petroleum substances from Panarctic lands, whichever is the later, but, in any event, not later than January 1, 1991.

5. Commitment:

The Company is committed under a lease agreement to pay annually $11,500 as rental for its head office premises until June 30, 1977. The Company has sublet its former premises to the Federal Government and remains contingently liable for the annual rental of $40,688 until May 30, 1977.

6. Remuneration of directors and senior officers:

Total direct remuneration paid by the Company and its subsidiaries to the directors and senior officers (including not only officers, as such, but also by definition, certain management personnel) was $148,100 (1974 – $143,300). No such remuneration was paid by the Company's subsidiaries.

7. Contingent liabilities:

The Motherlode-Greyhound Property is subject to payment of royalties to the previous owner or optionor, the aggregate amounts of which are fixed, and to a 5% interest in net profits.

8. Loss per common share:

	September 30	
	1975	1974
Loss before extraordinary item	$.05	$.07
Extraordinary item	–	.47
Net loss	$.05	$.54

9. Loss carry-forward and earned depletion:

At September 30, 1975 the Company has available as a future deduction for income tax purposes an accounting loss carry-forward of approximately $1,400,000.

Earned depletion is limited to 25% of production profits per annum to a total of $1 for every $3 of eligible capital and exploration expenditures made after November 7, 1969. At September 30, 1975 the earned depletion available to the Company and one of its subsidiaries in future years is approximately $4,500,000.

10. Issuance of share capital and Rights Offering:

The Company distributed to its shareholders of record, as of December 12, 1974, rights to purchase up to an additional 6,085,604 common shares at the price of $0.58 per share on the basis of seven additional shares for every ten shares held as of the date of record. By way of gross subscription for these rights, which expired on January 13, 1975, the Company received $2,227,200 and issued a total of 3,839,999 common shares.

The Company, pursuant to an agreement dated February 15, 1974, as modified by agreements dated July 23 and October 28, 1974, having called upon its major shareholder, Cemp Investments Ltd., to purchase at the Rights Offering price of $0.58 per share the remaining 2,245,605 common shares which were offered but not taken up by way of the Rights Offering, received subscriptions therefor from Cemp Investments Ltd. at that price in the aggregate amount of $1,302,450.

AUDITORS' REPORT

To the Shareholders of
Giant Mascot Mines Limited:

We have examined the consolidated balance sheet of Giant Mascot Mines Limited and its subsidiaries as at March 31, 1976 and the consolidated statements of loss, retained earnings, and changes in financial position for the six months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The ultimate realization of the Companies' investment in mineral claims, buildings and equipment, deferred mine development costs and deferred exploration and development expenditures is dependent on the results of future exploration and development work and the generation of sufficient funds for such programmes.

In our opinion, subject to the outcome of the Companies' exploration and development efforts and the generation of sufficient funds for such programmes, these consolidated financial statements present fairly the financial position of the Companies as at March 31, 1976 and the results of their operations and the changes in their financial position for the six months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding six months. In accordance with Section 212 of the British Columbia Companies Act we report that, in our opinion, due provision has been made for minority interests.

Price Waterhouse & Co.
Chartered Accountants

Vancouver, B.C.
April 15, 1976

CONSOLIDATED BALANCE SHEET

	For the six months ended March 31	
	1976	1975 (unaudited)
ASSETS		
Current assets:		
Cash and certificates of deposit	$ 264,696	$ 219,606
Receivables—		
Concentrate settlements	—	11,072
Other	22,886	62,734
Supplies, at estimated realizable value	39,814	50,584
Prepaid expenses	87,251	98,064
	414,647	442,060
Investment in and advances to affiliated company, Giant Explorations Limited (N.P.L.) (Note 1):		
Investment	102,115	122,498
Advances	86,206	65,665
	188,321	188,163
Mining properties and petroleum and natural gas holdings (Note 2)	5,793,006	6,290,179
Interest in Panarctic Oils Ltd. (Note 3)	15,249,347	14,179,173
	$21,645,321	$21,099,575

	For the six months ended March 31	
	1976	1975 (unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,358	$ 31,696
Accrued liabilities	115,285	101,585
Liabilities relating to the acquisition of shares of Panarctic Oils Ltd. (Note 3)	910,650	72,621
	1,041,293	205,902
Minority interest in subsidiary	85,666	85,666
Shareholders' equity:		
Share capital—		
Authorized—		
15,000,000 common shares of no par value		
Issued—		
14,779,332 common shares (Note 8)	19,803,498	19,576,048
Contributed surplus	237,494	237,494
Retained earnings	477,370	994,465
	20,518,362	20,808,007
Commitment and contingent liabilities (Notes 4 and 6)		
	$21,645,321	$21,099,575

THESE CONSOLIDATED FINANCIAL STATEMENTS HAVE BEEN APPROVED BY THE BOARD OF DIRECTORS:

[signature] Director

[signature] Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	For the six months ended March 31	
	1976	1975 (unaudited)
Retained earnings, beginning of period	$717,094	$1,342,790
Loss for the period	239,724	348,325
Retained earnings, end of period	$477,370	$ 994,465

CONSOLIDATED STATEMENT OF LOSS

	For the six months ended March 31	
	1976	1975 (unaudited)
Income:		
Interest	$ 18,094	$ 1,148
Other	8,948	48,492
	27,042	49,640
General and administrative expenses (Note 5)	88,707	84,070
Other general expenses:		
Shutdown expenses for properties	118,454	120,697
Interest	—	129,974
Financing	—	25,465
Investigation of exploration prospects	38,772	32,437
Depletion	450	450
	157,676	309,023
Total expenses	246,383	393,093
Loss before equity in expired costs of affiliate	219,341	343,453
Equity in expired costs of affiliate (Note 1)	20,383	4,872
Loss for the period	$239,724	$348,325
Loss per common share	$ .02	$ .03

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	For the six months ended March 31	
	1976	1975 (unaudited)
Financial resources were provided by:		
Issue of share capital	$ —	$ 3,302,200
Proceeds from disposals of fixed assets	167,851	54,350
	167,851	3,356,550
Financial resources were used for:		
Loss for the period	239,724	348,325
Less: Income credits (charges) not affecting working capital in the period—		
Depletion	(450)	(450)
Equity in expired costs of affiliate	(20,383)	(4,872)
	218,891	343,003
Interest in Panarctic Oils Ltd.	1,067,835	1,500
Additions to mineral claims and equipment	12,036	13,335
Deferred exploration, development and other expenditures	2,272	15,552
Increase in advances to affiliate	11,318	13,949
	1,312,352	387,339
Increase (decrease) in working capital	(1,144,501)	2,969,211
Working capital (deficiency), beginning of period	517,855	(2,733,053)
Working capital (deficiency), end of period	$ (626,646)	$ 236,158

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1976

1. Accounting policies:

The following significant accounting policies used by the Company are set forth to facilitate an understanding of the accompanying consolidated financial statements.

(a) Principles of consolidation—

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, namely: G.M. Explorations Limited (N.P.L.), Mascot Copper Mines Limited (N.P.L.), Mascot Mines & Petroleums Limited and Mascot Nickel Plate Mines Limited (in which the Company owns a 76% interest).

(b) Accounting for investment in affiliate—Giant Explorations Limited (N.P.L.)—

The Company carries its 28% investment in this affiliate by the equity method of accounting. The Company's share in the affiliate's expired costs for the six months ended March 31, 1976 has been determined on the basis of unaudited financial statements of that company as at March 31, 1976.

The Company recorded as contributed surplus its equity in the increased share capital of this affiliate derived from capital stock issuances to underwriters at prevailing prices. The difference as of March 31, 1976 between the carrying amount of the investment accounted for under the equity method and the underlying equity in net assets, in the amount of $29,918, has been allocated to mineral claims and exploration and development expenditures thereon.

(c) Capitalization of exploration and development expenditures—

Expenditures are capitalized on properties which are held for development and are not operating, and accordingly no depreciation or amortization is being provided. When a property is abandoned or an option dropped, the related costs are written off against income in that year

2 **Mining properties and petroleum and natural gas holdings:**

	For the six months ended March 31 1976	1975 (unaudited)
Mining properties:		
Giant Nickel Mine—		
Mineral claims, at cost less accumulated depletion	$ 241,223	$ 251,188
Buildings and equipment, at estimated realizable value	1,202,932	1,495,500
Deferred mine development and exploration costs less accumulated amortization	779,738	767,959
	2,223,893	2,514,647
Giant Copper property—		
Mineral claims, buildings and equipment, at cost	1,077,298	1,077,298
Deferred exploration and development expenditures	1,090,258	1,088,503
	2,167,556	2,165,801
Motherlode-Greyhound Property—		
Mineral claims, at cost	214,511	213,461
Buildings and equipment, at cost	188,844	412,242
Deferred exploration and development expenditures	301,916	300,761
	705,271	926,464
Mascot Nickel Plate property—		
Mineral claims, at cost	89,634	90,172
Deferred exploration and development expenditures	293,881	281,969
	383,515	372,141
Nickel Syndicate property (50% interest)—		
Mineral claims, at cost	25,154	24,167
Deferred exploration and development expenditures	202,532	201,930
	227,686	226,097
Giant Soo property—		
Mineral claims, at cost	21,202	21,202
Deferred exploration and development expenditures	55,333	54,277
	76,535	75,479
Interest in petroleum and natural gas holdings:		
Pembina Cardium Unit No. 8, at cost less accumulated depletion of $2,650	8,550	9,550
	$5,793,006	$6,290,179

The total amount shown for mining properties and petroleum and natural gas holdings is not intended to represent present or future value.

3. Interest in Panarctic Oils Ltd.:

The Company holds a 4.2626% interest (1,743,424 shares) in Panarctic Oils Ltd. (a company organized by private industry and the Government of Canada), the cost of which interest amounted to $15,249,347 at March 31, 1976. Panarctic, at present, is still in the exploratory stage, and, accordingly, as its most recent published financial statements indicate, all its costs and expenses have been capitalized and it is deemed to have earned no profit and sustained no loss to December 31, 1974. The shares of Panarctic are closely held and their transfer is subject to restrictions.

On January 27, 1976, the Company, pursuant to Panarctic's Seventh Expansion Agreement, agreed to subscribe for a further 85,252 shares of Panarctic, being the Company's pro rata portion of the shares initially offered, at a price of $12.50 per share at a total cost of $1,065,650. The Company anticipates that it will be called upon to pay the unpaid balance at March 31, 1976 of $910,650 by way of installments to be paid prior to December 31, 1976. The Company's subscription for such additional shares has enabled it to receive warrants to purchase an additional 170,504 shares of Panarctic at a price of $1 per share which may be paid by the incurring of exploration expenditures. Such warrants are exercisable during the five years commencing either on January 1, 1981 or the first day of January in the year next following the initial delivery of petroleum substances from Panarctic lands, whichever is the later, but, in any event, not later than January 1, 1991.

4. Commitment:

The Company is committed under a lease agreement to pay annually $11,500 as rental for its head office premises until June 30, 1977. The Company has sublet its former premises to the Federal Government and remains contingently liable for the annual rental of $40,688 until May 30, 1977.

5. Remuneration of directors and senior officers:

Total direct remuneration paid by the Company and its subsidiaries for the six months ended March 31, 1976 to the directors and senior officers (including not only officers, as such, but also by definition, certain other personnel) was $68,350 (1975—$69,400). No such remuneration was paid by the Company's subsidiaries.

6. Contingent liabilities:

The Motherlode-Greyhound Property is subject to payment of royalties to the previous owner or optionor, the aggregate amounts of which are fixed, and to a 5% interest in net profits.

7. Loss carry-forward and earned depletion:

At March 31, 1976 the Company has available as a future deduction for income tax purposes an accounting loss carry-forward of approximately $1,600,000.

Earned depletion is limited to 25% of production profits per annum to a total of $1 for every $3 of eligible capital and exploration expenditures made after November 7, 1969. At March 31, 1976 the earned depletion available to the Company and one of its subsidiaries in future years is approximately $4,500,000.

8. Issuance of share capital and Rights Offering:

The Company distributed to its shareholders of record, as of December 12, 1974, rights to purchase up to an additional 6,085,604 common shares at the price of $0.58 per share on the basis of seven additional shares for every ten shares held as of the date of record. By way of gross subscription for these rights, which expired on January 13, 1975, the Company received $2,227,200 and issued a total of 3,839,999 common shares.

The Company, pursuant to an agreement dated February 15, 1974, as modified by agreements dated July 23 and October 28, 1974, having called upon its major shareholder, Cemp Investments Ltd., to purchase at the Rights Offering price of $0.58 per share the remaining 2,245,605 common shares which were offered but not taken up by way of the Rights Offering, received subscriptions from Cemp Investments Ltd. at that price in the aggregate amount of $1,302,450.

9. Restatement of comparative figures:

The unaudited figures for 1975 have been restated where necessary to conform with the presentation adopted for 1976.

NOTES

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